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Critical Analysis Of The Us Economy

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Abstract

This study investigates the condition of the U.S. economy in the period post 2020, highlighting the key events that have impacted the American population. The study also focuses on the recessionary behaviour of the American market, the 2023 debt crisis and the effect of rising prices on the common household. The role of the recently unchanged but high interest rates is also presented. Debt as a characteristic is also used to indicate how it serves as a crucial element in outlining the tangible repercussions of inflation within real-world scenarios. Inflation is covered in figurative terms and also its effects on the real sector are stated. The paper highlights impact of inflation in terms of the consumer's purchasing power taking real estate, vehicles, etc. into account.

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Keywords: Leading Economic Index, Inflation, Consumer Price Index, Debt Crisis, Unemployment rate, Mortgage rate

I.INTRODUCTION

The American economy has been undergoing inflationary situations from 2020 through early 2024, and is apparently experiencing the market behaviour that resembles pre-2008 conditions. Inflation raises the interest rates and consequently tries to reduce the amount of debt flowing into the economy. But it also leads to a net increase in interest costs which end up raising the amount of debt when compared to a scenario where the inflation is lower. Hence, debt is considered in regard to determining the material impact of inflation.
Inflation is a general rise in prices that ends up reducing the purchasing power of the consumers over time. It has been noticed that inflation is looming over the American economy since the end of 2020. The steady rise in prices post 2020 has led to a prudent spending behaviour of the American consumers. Though it is anticipated that this trend is bound to stop, and the inflation and interest rates would subside, it is important to note that the real personal income growth has not been able to keep up to the real consumer spending through 2023.

Due to the rising interest rates, financing long-term projects and heavy investments became unfeasible and too expensive for many investors. This has led to a depleting housing supply, with an overbearing demand which has led to high rents and mortgage debts. However, investment in the residential sector still would not receive any meaningful investments until interest rates fall over the coming quarters.
The labour market also became more stringent during 2021 and 2022, leading the firms to ramp up their prices to meet the bargains from the workers for better pay. Accumulation of work and energy prices contributed the most to the inflation shocks. The Federal Reserve has kept a 2 percent target for year-over-year inflation trimming for Q3 of 2024 (Lundh, 2024). This would require rate cuts in Q2 of 2024.
This research study uses a mixed method of research that is entirely secondary in nature in order to examine the patterns showcased by the American economy. The objectives of this study are to review the reports of U.S. Government machinery to explore on the following important aspects:
- The scale of change in leading economic indicators.
- The rate of inflation and the condition of economy.
- The state of national debt in the US.
- The extent of losses accumulated by the Department of Treasury.

II. DATA COLLECTION

Qualitative and quantitative insights have been gathered through statistical analyses. Comparative analysis has been implemented to assess the current state of the US economy in relation to prior data and the global standard. In order to ensure the reliability of the study, data sources are referenced, and citations have been inserted to ensure the accuracy of the information in the study.

Data has been collected through the following approaches:
1. Quantitative Data: Economic indicators like inflation rates, unemployment rates and cost of living, collected from Bureau of Labor Statistics and Federal Reserve.
2. Qualitative Data: Economic reports and articles along with government published reports.

The Leading Economic Indicators

Economic indicators are statistics about an economic activity, used as short-term indicators to predict the economy. Such indicators include indices of consumer expectations (CPI, PPI, PCE), housing starts, unemployment rates, common stock prices and coincident indicators like Gross Domestic Product (GDP), personal income and industrial production. The Conference Board, a non-profit, publishes a Leading Economic Index. The Leading Economic Index is an indicator that is capable of predicting the economic activity over the next two or three quarters.

Table 1: Percentage changes in the Leading Economic Indicators on the US Economic Outlook, 2022-24

	2022				2023				2024			
Indicators	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Real GDP	-2.0	0.6	2.7	2.6	2.2	2.1	4.9	2.0	1.0	0.7	0.4	1.5
Real GDP (YoY)	3.6	1.9	1.7	0.7	1.7	2.4	2.9	2.8	2.5	1.8	0.5	0.3
Real Disposable Income	9.8	-1.4	3.6	2.2	10.8	3.3	0.3	2.4	1.0	0	0	1.0
Real Consumer Spend	0	2.0	1.6	1.2	3.8	0.8	3.1	2.3	1.1	0.8	-1.0	1.0
Residential Investment	1.9	-14.1	-26.5	-24.9	5.3	-2.2	6.7	0	0	1	1	2.0
Government Spending	2.9	1.9	2.9	5.3	4.8	3.3	5.8	3.7	2.5	2.4	2.2	2.1
Exports	04.6	10.6	16.2	3.5	6.8	9.3	5.4	2.0	2.0	1.0	1.0	2.0
Imports	14.7	4.0	-4.8	4.3	1.3	-7.6	4.2	2.0	0	0	0.5	2.5
Unemployment Rate	3.8	2.6	3.6	3.6	3.5	3.6	3.7	3.7	3.8	3.9	4.1	4.3
Personal Consumer Expenditure (YoY)	6.6	6.8	6.6	5.9	5.0	3.9	3.3	2.7	2.5	2.2	2.0	2.0

Source: The Conference Board

In comparison to all the quarters of the years 2022 and 2023, the rates of 2024 are estimated to be as shown in Table 2.

Table 2: Year-over-year percentage change in Indicators

Indicators	2022	2023	2024
Real GDP	1.9	2.5	1.2
Real Disposable Income	-6.0	4.2	1.0
Real Consumer Spend	2.5	2.2	0.9
Residential Investment	-9.0	-10.8	1.1
Government Spending	-0.9	4.0	3.1
Exports	7.0	2.4	1.4
Imports	8.6	-1.7	0.6
Unemployment Rate	3.6	3.6	4.0
Personal Consumer Expenditure	6.5	3.7	2.2

Source: The Conference Board

The Leading Economic Index (LEI) by The Conference Board provides (or "leads") an early indication of the turning points of the business cycle. A line chart expressing the annual growth rate of LEI until December 2023, is shown in the Figure 1.

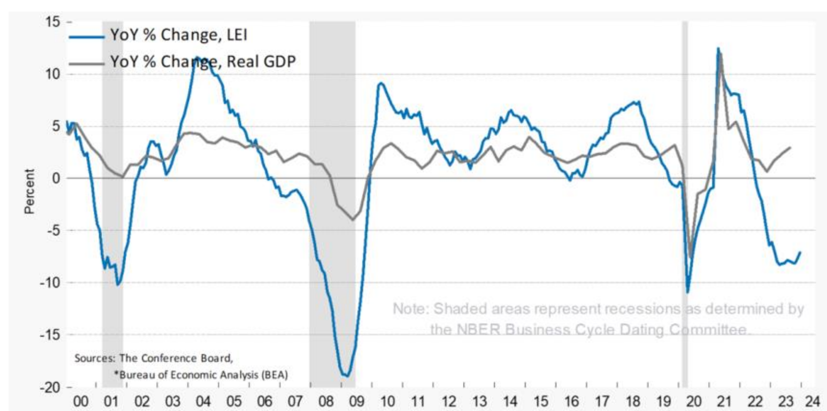

Figure 1: Annual Growth rate of LEI

From the figure it can be seen that the LEI is substantially negative. The index along with the GDP change reaches its peak during the onset of 2021, which showed the easing of restrictions and the revival of the global market. Also considering the index at the end of 2023, it shows a forewarning of an economic contraction just like the ones representing recession during mid-2020 and in 2001 due to the burst of the DOT-COM bubble.

The Worsening Inflationary Condition

The detrimental impact of the current economy falls on the middle class living in the urban sector. In order to measure the Consumer Price Index for the Urban consumers (CPI-U), which is defined using the following formula:

$$\frac{Cost\ of\ products\ or\ services\ in\ the\ current\ time\ period}{Cost\ of\ products\ or\ services\ in\ the\ previous\ time\ period} * 100$$

When the CPI-U for the major categories is derived for December 2023, it is up 3.4% from December 2022, and it is up 3.9% for all items less food and energy. After assessing the seasonally adjusted annual change in CPI-U, the graph portraying the percentage change from the inception of 2020 till the current year, closely resembles that of the 1972 to 1976 recessionary phase (through 1983). The recession of 1981-82 was the largest nosedive in the US economy, after the Great Depression, and before the 2007-09 recession. See Federal Reserve History's "Recession of 1981-82". This will predictably lead to the lowest change in interest rates in around October 2024. However, it might not appear that inflation has been beaten, or controlled, by then.

Considering its trajectory to be similar to that of the 1972-83 period, it will accelerate the rise in annual CPI-U (city average) increase for the rest of this decade.
The Federal Reserve is unlikely to repeat the policy decisions as it did in this period. Inflation came down in the 1980s due to extreme interest rates of 18% that crushed the economy, and heavy drilling of new oil supply in Alaska and the nearby territorial waters. However, the new energy related policies of the current administration and the blocking off of natural gas exports only hinder the economy and complicate the lives of the poor in the country, where the only winners are the environmental activists, with criticism from energy industries and the opposition, since it is a short-sighted move where the buyers now have to look for their resources elsewhere.

The United States Debt Crisis
The beginning of year 2023 marked the event termed as the "2023 United States debt-ceiling crisis". The debt crisis occurred when US hit the legislative curb on its borrowings called the debt ceiling. The debt ceiling is the upper cap to the amount of borrowings by the US government, where the Treasury instead issues bonds. This limits the amount of money the government can pay by borrowing more money. If the ceiling is hit without a complete repayment, the Treasury defaults. The headline of such emergency was the United States hitting the debt ceiling of $31.8 trillion on January 19, 2023, leading to a heightened political trouble amid the continuous accrual of national debt.
Policies focusing on curtailing inflation have focused on reducing monetary expansion. Therefore, to determine inflation, it has led to a deeper focus on the fiscal policies that are implemented (Pablo Barquero Romero and Loaiza Marín, 2017). Large amounts of public debt create inflationary pretense that the larger debt would lead to higher risk premiums being implemented by the creditors which in turn brings about higher interest rates. Alternatively, a higher inflation spectrum is also a potential medium to reduce the debt burden (Ichiro, Takuji and Hideaki, 2020). The effect of excess debt is presented in the forthcoming sections.
During the 2022 fiscal year, the federal government reported a budget deficit of $1.38 trillion. America's national debt has averaged to a little over $1 trillion every year since 2001. The possibility of default at the time was quite high, with the Treasury considering implementing "emergency measures" in order to avoid a default. With there being a possibility of the debt ceiling being raised again, market analysts were keeping large investors updated about the consequences of a potential default. By May 2023, Standard and Poor, European Credit Rating agency Scope, and Fitch exerted the "AA" rating of United States under review for downgrade. Fitch knocked the rating down to AA+, Standard and Poor removing the AAA rating, and the Scope review ending with demotion to the AA rating in June 2023.
It is only logical to raise taxes to deal with the deficit. Government spending also must be regulated. This, however, is quite demanding to do so in reality since the public would be always against higher taxes and would not want the government to get rid of programmes that are beneficial to the common man. Figure 2 below represents the spread of outlays of the US Treasury.

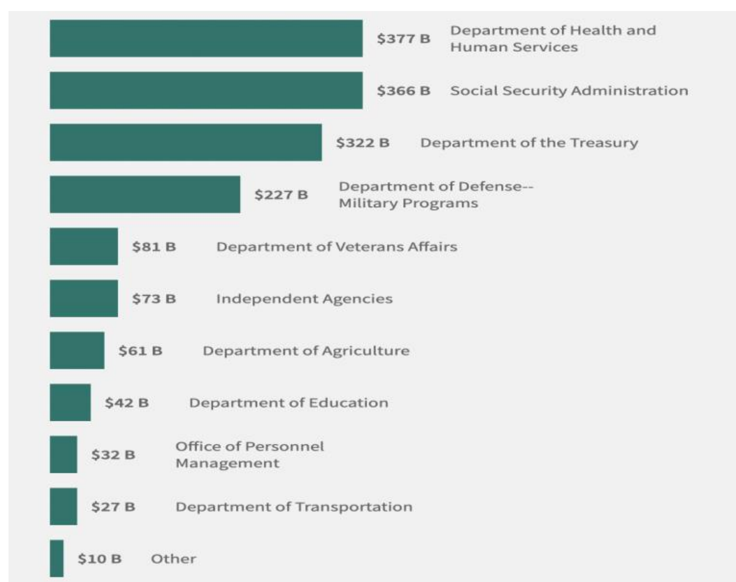

Figure 2: Outlays of US Treasury
Source: fiscaldata.treasury.gov

The above chart showcases the agency-wise spending of the government, portraying the period of fiscal year 2024. As it is outlined, the rise in HHS and SSA spending is due to the increases in Medicare and rise in cost of living respectively. Americans hold trillions of dollars in debt, with mortgages being the biggest hardship. Mortgage rates were at 7.23% in August 2023 and hence have not been attractive for buyers to take loans. As of Q3 2023, the total mortgage debt of United States amounted to $12.14 trillion. Other statistics related to debt include that of $1.60 trillion in student debt and $1.08 trillion in credit card debt, according to the Federal Reserve Bank of New York. The Treasury experienced a 20% increase due to the increase in interest on public debt. Meanwhile, the Defense sector increased its military spending, through personnel, upgrades and operations.

2023 also included the Banking Crisis which saw the collapse of several banks in the US. Those included the Silicon Valley Bank, Signature Bank and First Republic Bank. The banks showed lack in confidence of depositors with several account holders withdrawing cash after announcing emergency sale of treasury stock and several billions worth of securities, and advice from large investors. A California based Silvergate Bank went through a voluntary liquidation process in March 2023.

The chart shown in Figure 3 depicts the amount of debt borrowed every month. After the debt ceiling crisis was supposedly evaded in June 2023, the accumulated debt has risen by $3 trillion approximately. At these rates of borrowing, it is possible that US reaches $37 trillion of federal debt. Moreover, the federal government plans to spend another $2.3 billion on National Defense, Social Security and Medicare, respectively.

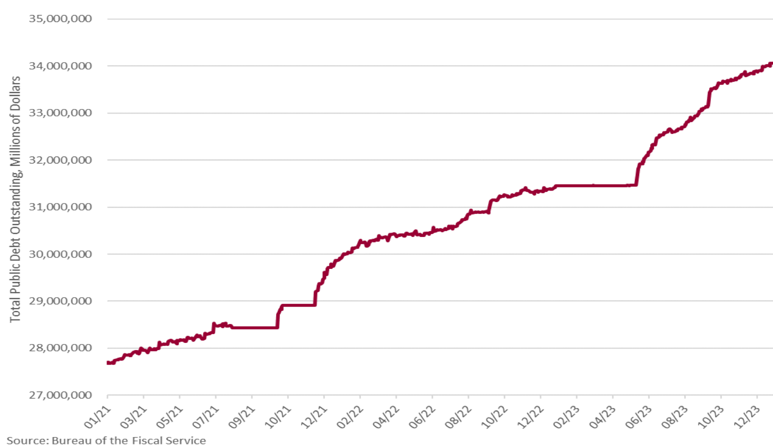

Figure 3: Total public debt outstanding

The astonishing aspect of this spend comes out to be that a large chunk of the debt flows outside America. Dollars are sent to other countries in the form of investments, supply of military support of American allies. USA foreign aid to allies, is specified by United States Agency for International Development (USAID).

The Extent of Losses

Apart from a looming debt obstacle, the Federal Reserve (Fed) has been reporting heavy losses in the past fiscal year. In September 2023, it was reported that the reserve's operating losses had passed the $100 billion level. Since the Fed started reporting operating losses in September 2022, it has taken just one year to reach this mark, and it has reached a record deficit of $114.3 billion in the calendar year 2023. This in addition to the large accumulation of fiscal deficits with the Treasury has created a dire situation for the American economy. This was a result of the central bank paying to the financial institutions more than it earned on its securities that were purchased at lower rates. These losses are real cash losses occurring due to the revenue being incapable of covering the interest-bearing deposits. Such losses might continue into 2024 and even further if proper policies are not implemented. William English from Yale University predicts seeing a "peak" loss of $200 billion in 2025.

The losses don't seem to be affecting the reserve's regular operations and won't need to go to the Treasury to cover the operating losses unlike other federal agencies. The combined statements of operations for Q3 of 2023, released by the Federal Reserve, showed the Reserve Bank's net loss from operations as $88.152 billion (for nine months ending September 2023). The point at which the Fed becomes profit bearing again is uncertain and will depend on when it lowers its interest rates. It however appears to be unlikely as the Federal Reserve decided to maintain its interest rates at the decade-high range during its January 2024 meeting.

It is necessary to also measure how the current American economy is being experienced by the common employed man living in the United States. To have a clear idea of how expensive it is for someone to form a living in the US, it can be estimated through the following components:

- The Employment Challenges
- Housing Prices and Rent
- Vehicle and Travelling

The Employment Challenges

After 2020, the labour market in America has been ever fluctuating, with an upward trend in employment in 2021 for an economy that was recovering from a recession in the previous year, resulting in several hundred job posts being occupied. Unemployment is an economic indicator that is the total percent of capable population that is not a part of the workforce. Figure 4 shows that year 2022 saw a downward trend in job generation due to businesses facing the repercussions of the pandemic on their operations.

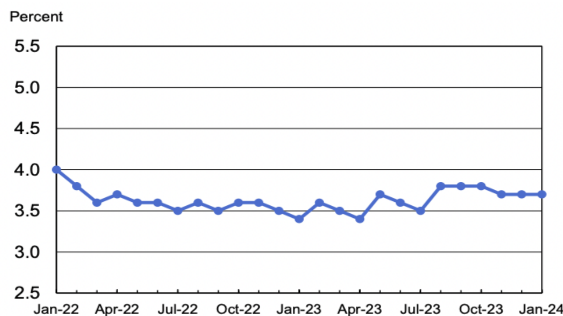

Figure 4: Unemployment rates from January 2022 to January 2024
Source: Bureau of Labor Statistics News Release - January 2024

For fiscal year 2023 and the remainder of months till January 2024, the unemployment rate remains at 3.7%. Even such rate is misleading since a large population is also employed under a part-time job cycle. As of January 2024, close to 30 million individuals are employed part-time, close to 22 million of them for non-economic reasons. The number people unemployed for a long-term (more than 27 weeks) is also over 1.3 million individuals. There are about 5.8 million people who are not participating in the labour force but would be willing to have a job. This environment of job insecurity has brought a wave of accepting lower pay to ensure earnings per month. The federal minimum wage is set at $7.25/hour. With the living expenses in urban areas continuously rising, it makes it extremely difficult for a minimum wage earner to get by in any particular time frame. It also allows for businesses to have an even greater advantage over the workforce, who are willing to work for lesser pay to ensure a sense of job security.

Other signs of an unfair job market in the US are the number of individuals who are currently employed in 2 or more jobs. The country holds a record number of 8.4 million people that are employed in multiple jobs. This number has risen by 2.4 million since 2020, indicating the upturn in the amount of people struggling to make ends meet.

Housing Prices and Rent

Prices are rising everywhere, and the housing market is not an exception in any case. It is burdensome for American residents to come up with a decision of whether to buy a house and have a massive house debt with a mortgage for the next 30 years, or not to buy but pay over a thousand dollars every month as rent. The matter here is that of affordability. About 3 out of 10 homeowners in America stated that they were burdened by the high rents and spent over 30% of their earnings towards housing (Watha, 2023). Mortgage rates are interest rates that form part of the total costs borrowed from the moneylender. The interest is paid regularly to the mortgage lender instead of a lump sum payment. With the median sale price of a house being close to $400,000, a rate drop would reform the market for both buyers and sellers in 2024. Mortgage rates currently are indirectly influenced by the monetary policies as target rates increased by the central bank causes a hike in the short-term interest rates, which in turn induces the lenders to increase their rates to transfer their borrowing costs over to the consumers by increasing the interest rates.

Through table 3, it is evident that the highest rise in rents is actually not in the largest and developed cities of America. This broad hike is being seen in cities that are growing and seeing a huge influx of migrant

population. All the regions mentioned in the above table are on the eastern or southern side of the country, which are more populous and geographically better to reside in. Considering Syracuse, NY, is the best place upstate to find work, with many Micron Chip plants being built and a growing population of university students. Atlantic City, NJ, has been upward like other beach towns in the state. Rent for primary residence has seen a rise of 6.5% from December 2022 to December 2023. The highest increase of rent in prosperous areas was seen at Fort Lauderdale, Miami, Florida and Urban Hawaii of around 10%.
The increase in the rents for several tier-1 cities in the US is presented state-wise in Table 3.

City	State	% Increase
Fayetteville	North Carolina	13.8
Savannah	Georgia	13.0
Syracuse	New York	12.7
Hartford	Connecticut	12.7
Kingsport	Tennessee	12.3
Knoxville	Tennessee	11.6
New Haven	Connecticut	11.4
Atlantic City	New Jersey	11.3
Trenton	New Jersey	11.3
McAllen	Texas	11.1

Vehicles and Travelling

Travelling around in most parts of America is an inconvenience if a household does not possess at least one vehicle. The public transport system is prevalent and properly operational in only a handful of cities, which makes transport difficult for a daily commuter if he does not have a vehicle to travel to a workplace. This also creates a negative impact on the environment. A study assessed by the World Economic Forum made their rankings about the urban centres with the best public transport systems naming the top 60. No American city was included in the top 10 and the only city included in the overall rankings was New York City, due to its well-built metro system. Americans owe a total of $1.6 trillion in auto loan debt, which is 9.2% of total American consumer debt. Almost $60 billion are borrowed by buyers every month in vehicle loans, with Americans being in their 30s and 40s being the largest portion, followed by the those below the age of 30.

By Q3 of 2023, the rising prices in the American economy affected the car market in the following manner:

- Average new car payments are at a record $726 per month. The same for leased and used vehicles was $597 and $533 respectively, with a lower jump for used vehicles.
- Auto loan delinquency rate for the loans that have gone 30 days past the due date was at 7.4% for Q3 of 2023.
- The Average auto loans went over $40,000 for new cars. Buyers with credit ratings in the range 601-660 took out the most loans.

After referring to the 2024 auto loan statistics, the car market has been experiencing higher prices just like the housing market, but auto loan rates are short-term and much higher. So, weakness in the car market can spread to other domains.

III. FINDINGS

1. There is a rise in the rate of imports and unemployment is predicted for fiscal year 2024, and a decrease in exports along with government spending. The most noticeable drop is that in residential investment of a near 10%.
2. The rate of inflation determined by the CPI-U with a 3.1% Y-o-Y increase for January 2024. The Y-o-Y increase for January 2023 was 6.0% The rising prices combined with the lack of service-related jobs makes it extremely difficult for an individual to thrive. The highest percentage increase has been shown by transportation and shelter services of 9.7% and 6.2% respectively. However, the US has been focusing on large-scale electrification of road vehicles since the beginning of the current decade, which has led to a staggering 14.7% decrease in the fuel costs and 13.8% decrease in the piped natural gas services.
3. The Treasury expenditure along with that in the Defense sector has crossed the $200 billion mark and is following the trend of catching the spending for public welfare sectors of Health and Human Services

(HHS) and Social Security Administration (SSA). Analyzing overall debt, the average American household owes \$10,000 in credit card debt, $241,840 in mortgage debt, and $22,612 in auto loans.
4. In terms of the federal losses, the combined statements of operations for Q3 of 2023, showed an increase in loss of $162.339 billion from September 2022.

IV. CONCLUSION

The American economy at its current stage is very puzzling and difficult to predict. It relies on the implementation of proper policies that affect the economy. The effect of high inflation has a neutralizing effect on the fiscal budget. Thus, high inflation also leads to an increase in fiscal deficits and debt. New policies and reforms in the car market and modulating the interest rates may also help with the situation. A large chunk of the workforce has experienced layoffs from tech giants. It is probable that the government could inhibit or regulate the rate of immigration to properly control the unemployment rates. The Federal Reserve running a quantitative tightening might allow for removing excess liquidity from the economy and lessening the reserves from the system. It is important for the government to refine US's economic policy structure.

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